



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS**

Date Amended:	03/11/02	Bill No:	AB 1844
Tax:	Property	Author:	Mountjoy and Strickland
Board Position:	Support	Related Bills:	SB 48 (2002) AB 2158 (2000)

BILL SUMMARY

This bill would increase the homeowners' exemption from \$7,000 to \$17,000 for persons who are either 62 years of age or older, blind or disabled.

ANALYSIS

Current Law

Article XIII, Section 3(k) of the California Constitution exempts the first \$7,000 of assessed value of an owner-occupied principal place of residence from property tax. This exemption is commonly referred to as the "homeowners' exemption." The Constitution gives the Legislature the authority to increase the amount of the homeowners' exemption, provided that:

1. Any increase is funded by increasing the "rate of State taxes" in an amount sufficient to reimburse local governments for property tax revenue loss and
2. Benefits to renters, which under current practice is granted through the renters' tax credit, are increased by a comparable amount.

Section 218 of the Revenue and Taxation Code specifies eligibility for the exemption and sets the exemption in the amount of \$7,000 of full cash value.

Article XIII, Section 25 of the Constitution requires that the state reimburse local government for the property tax revenue loss resulting from the homeowners' exemption.

Proposed Law

This measure would amend Section 218 of the Revenue and Taxation Code to increase, from \$7,000 to \$17,000, the amount of the homeowners' exemption for persons who are either 62 years of age or older, blind, or disabled.

Background

The homeowners' exemption was created in 1968 via a constitutional amendment, Proposition 1-A (SCA 1 and SB 8, Stats. 1968). The amount of relief provided was

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equivalent to \$3,000 of full cash value. The actual amount was \$750 but, at that time, property was assessed at 25%, rather than 100%, of value. In 1972, the amount of the exemption was increased (SB 90, 1972) to its current equivalent level of \$7,000 commencing in 1974. The actual amount was \$1,750.

The 1960's to 1970's was a period when many competing property tax reform proposals were promoted by various parties. At that time, property was reassessed to current market value levels on a cyclical basis. This process resulted in substantial property tax increases for property owners once the reassessment to market value occurred as home prices were escalating during that era. To provide some measure of property tax relief, the homeowners' exemption was created in 1968 and increased in 1972. Many bills were introduced between 1972 and 1978 to further increase the amount of the exemption. But it appears that these bills were, in part, rejected because some viewed the exemption as a temporary means of providing property tax relief, the benefits of which would erode over time due to inflation. Some argued that one of the many competing proposals to fundamentally change the taxation system should be sought instead as a permanent means of containing rapidly increasing property taxes.

Ultimately, Proposition 13, approved in November of 1978, rolled back property values to 1975 fair market value levels and limited annual increases in property taxes thereafter (provided it is under the same ownership) to the rate of inflation, not to exceed 2%. Once property changes ownership, the property is reassessed to its current fair market value (for homes this is usually the sales price) and once again annual increases of that value are limited to the rate of inflation, not to exceed 2%.

Thus, for property acquired after 1975, the property tax system was altered to an "acquisition value" basis. For taxpayers, especially homeowners, the primary benefits of this assessment value standard was that future property tax increases would be (1) determinable and (2) limited to a modest amount. Under Proposition 13, if the value of a home substantially increased after its initial purchase, the homeowner would not be "taxed" out of their home because they could no longer afford the property taxes. Another element of Proposition 13 was that it cut the tax rate to be applied to that assessed value from a prior statewide average of 2.67% to 1%. Previously, each taxing agency could determine and levy its own rate. With Proposition 13, all taxing agencies were instead limited to a share of the revenue proceeds from the 1% tax rate.

Post-Proposition 13, numerous bills have been introduced in the Legislature to increase the amount of the homeowners' exemption. The proposals have used various methods, including increasing the amount of the exemption by a flat amount, indexing the exemption for inflation, and varying the exemption according to the year of purchase. Additionally, increasing the exemption for certain groups of people, specifically, first time homebuyers and senior citizens have been proposed.

Previous bills to increase the homeowners' exemption are summarized in the table below.

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Bill Number	Legislative Session	Author	Type
SB 48	2001-2002	McClintock	Index for inflation by California CPI
SB 48	2001-2002	McClintock	Increase to \$25,000 plus index for inflation
AB 218	2000-2001	Dutra	Increase for 1 st time homebuyers
AB 2288	1999-2000	Dutra	Increase for 1 st time homebuyers
AB 2158	1999-2000	Strickland	Increase to \$8,750 for persons over 62
SCA 8	1999-2000	Johannessen	Increase to \$20,000; delete renter's credit parity
AB 2060	1997-1998	Granlund	Increase to \$20,000
ACA 43	1997-1998	Granlund	Increase to \$20,000
ACA 5	1991-1992	Elder	Variable according to assessed value
ACA 31	1991-1992	Frizzelle	Index for inflation by California CPI
ACA 47	1991-1992	Jones	25% exemption; no assessed value cap
ACA 3	1989-1990	Elder	Variable depending on year acquired
ACA 9	1989-1990	D. Brown	25% exemption; \$250,000 assessed value cap
ACA 31	1989-1990	Hannigan	15% exemption; \$150,000 assessed value cap
ACA 55	1989-1990	Wright	Increase to \$48,000
ACA 1	1987-1988	Elder	Increased to \$25,000 plus index for inflation
ACA 25	1987-1988	D. Brown	25% exemption; \$250,000 assessed value cap
AB 2141	1985-1986	Klehs	20% exemption; \$50,000 exemption cap
AB 2496	1985-1986	Cortese	Increase in years with General Fund Reserves
AB 3086	1985-1986	Elder	Variable depending on year acquired
AB 3982	1985-1986	La Follette	Increase for 1 st time home buyers
ACA 49	1985-1986	Elder	Variable depending on year acquired
Prior to Prop. 13			
SCA 26	1973-1974	Petris	100% exemption for low income persons over 62 and the disabled

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the California Senior Legislature in an effort to increase the amount of the homeowners' exemption for senior citizens.
2. **Amendments.** The March 11 amendment extended the increase in the homeowners' exemption to persons who are blind or disabled.
3. **Homeowners Will Need to Take Action to Receive the Higher Exemption Amount.** This bill would likely require a mass refile by persons eligible to claim the higher exemption amount. Currently, persons file a claim for the homeowners' exemption only once. Those persons eligible for the \$17,000 exemption will need to refile with the assessors' office and provide any necessary documentation as to eligibility. Additionally, as other persons reach the age of 62 or become disabled, they would also need to modify their claim with the assessors' office to receive the proposed higher exemption amount.
4. **Exemption Amount Unchanged Since the Enactment of Proposition 13.** The homeowners' exemption was first enacted in 1968 in the equivalent amount of \$3,000 of full cash value. It was increased to its current level of \$7,000 in 1974.

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Arguments against increasing the homeowners' exemption have generally centered on the point that Proposition 13, passed in 1978, has provided sufficient property tax relief and controls.

5. **The \$7,000 Exemption is a Minimum Amount.** The \$7,000 amount specified in the Constitution sets forth the *minimum* amount of the exemption. The Constitution provides that the homeowners' exemption can be statutorily increased, as long as there is an equivalent increase in the amount of the renters' credit (Revenue and Taxation Code Section 17053.5), and any increase is funded by increasing the rate of state taxes sufficiently to reimburse local governments for property tax revenue losses.
6. **Renters' Credit.** Presumably, it could be argued that the amount of the renters' credit for senior citizens, the blind and the disabled would also have to be increased. (The Property Tax Assistance Program for senior homeowners and renters, noted below, has been increased in recent years, but the general renters' credit provided via the state income tax return has not.) The renters' credit for all persons was suspended from the 1993 through the 1997 income tax years in accordance with budget agreements. It was restored in 1998 by AB 2797, a budget trailer bill. During this suspension period homeowners continued to receive the homeowners' exemption. So the constitutional parity provision was not adhered to for this five year period.
7. **Provides Additional Annual Tax Savings of \$109.50.** The homeowners' exemption, in the amount of \$7,000 of full cash value, on average, provides annual property tax savings of \$76.65. It is estimated that this measure would increase the annual property tax savings, on average, to \$109.50 for a total savings of \$186.15 for persons 62 or older, or blind or disabled who own homes.
8. **The State Subvenes Property Tax Revenue Loss from the Homeowners' Exemption.** The homeowners' exemption is the only property tax exemption for which the state provides reimbursement to local government.
9. **Two Programs Currently Provide Persons 62 or Older, or Blind or Disabled with Property Tax Relief and/or Assistance.** Both of the following programs have income restrictions limiting participation.
 - The **Property Tax Postponement Program**, administered by the State Controller, permits persons to delay all or part of their property taxes until after their death.
 - The **Property Tax Assistance Program**, administered by the Franchise Tax Board, rebates from 4% to 96% of property taxes paid. The percentage rebated is determined according to a sliding income scale. The rebate ranges from \$19.72 to a maximum of \$473.00. This program also makes assistance payments to renters to rebate property taxes paid indirectly via rent.
10. **Other Property Tax Benefits Provided to Seniors and the Disabled.** In addition to above programs, persons over the age of 55 and the disabled are permitted to transfer their Proposition 13 assessment if they purchase a new home of equal or

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lesser value that is located in the same county (Additionally, nine counties¹ permit persons to transfer values from homes located in other counties). This once in a lifetime benefit allows seniors and the disabled to pay the same level of taxes if they purchase a qualifying new home.

11. **Disability Definitions.** With respect to new construction exclusions, there are different definitions of disability under Section 74.3 and 74.6. These exclusions ensure taxes will not increase when property is modified for accessibility improvements. For base year value transfers, other definitions of disability are specified to which a doctor certifies. For the disabled veterans' exemption, the Department of Veterans Affairs disability rating of 100% is used as the basis of determining eligibility. Previously, the definitions and conditions for various exemptions have been stand alone measures separated from those used new construction exclusions or change in ownership exclusions. Therefore, it may be preferable to directly state in the homeowners' exemption provisions, the definition of disability to be used for purposes of qualifying for the increased homeowners' exemption. (Both the FTB and State Controller's Property Tax Programs use definitions for "disabled" and "blind" as found in Section 12050 of the Welfare and Institutions Code²).
12. **Suggested Amendment.** For clarity for both taxpayers and administrators it would be preferable to clearly state that the age or disability status of a person on the lien date (January 1) determines the exemption amount provided for the upcoming fiscal year, which runs from the following July 1 to June 30.

~~(2) For any assessment year beginning on or after January 1, 2003~~ For the 2003-04 fiscal year and each fiscal year thereafter, if the assessee for a dwelling is either aged 62 years or older, blind, or disabled on the lien date for that fiscal year the exemption is in the amount of seventeen thousand dollars (\$17,000) of the full value of the dwelling.

COST ESTIMATE:

With respect to property taxes, the Board would incur some minor absorbable costs in informing and advising local county assessors, the public, and staff of the law changes.

REVENUE ESTIMATE:

Background, Methodology, and Assumptions

Existing property tax law provides for homeowners' exemption in the amount of \$7,000 of the full value of a "dwelling," as specified. The state is required to pay subventions to

¹ Alameda, Kern, Los Angeles, Modoc, Orange, San Diego, San Mateo, Santa Clara, and Ventura

² Section 12050(c) An individual shall be considered "blind" as defined in Section 1614 of Part A of Title XVI of the Social Security Act.

Section 12050(d) An individual shall be considered disabled as defined in Section 1614(a) of Part A of Title XVI of the Social Security Act.

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counties for the homeowners' exemptions to offset the resulting local property tax loss. The state reimbursement to the counties for 2000-2001 totaled \$398,362,000 on 5,207,251 claims.

The total exempt value on these properties was \$36,396,322,000. Therefore, the average tax rate for properties receiving the homeowners' exemption is:

$$\$398,362,000 / \$36,396,322,000, \text{ or } 1.095\%.$$

Under this proposal, the homeowners' exemption for claimants who are 62 years of age or older, blind, or disabled would increase by \$10,000 from \$7,000 to \$17,000 for a full exemption. The average increases in the reimbursement for claimants age 62 years and older, blind, or disabled is computed as follows:

$$\$10,000 \times 1.095\%, \text{ or } \$109.50.$$

Based on 2000 U.S. Census data, we estimate that there are 2 million people age 62 years or older, or blind, or disabled claiming the homeowner exemption. We estimate the bill's revenue impact as follows:

$$2 \text{ million} \times \$109.50 = \$219 \text{ million}$$

Existing property tax law provides for homeowners' exemption in the amount of \$7,000 of the full value of a "dwelling," as specified. The state is required to pay subventions to counties for the homeowners' exemptions to offset the resulting local property tax loss. The state reimbursement to the counties for 2000-2001 totaled \$398,362,000 on 5,207,251 claims.

Revenue Summary

This bill would increase the state reimbursement for the homeowners' exemption approximately \$219 million annually.

This amount will grow over time as the number of qualified claimants increases due to the aging population.

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